

TENNESSEE REGULATORY AUTHORITY



Deborah Taylor Tate, Chairman
Pat Miller, Director
Sara Kyle, Director
Ron Jones, Director

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1600 James Robertson Parkway
Nashville, Tennessee 37243-0505

T.R.A. DOCKET ROOM

MEMORANDUM

To: Deborah Taylor Tate, Chairman
Pat Miller, Director
Sara Kyle, Director

From: Pat Murphy *PM*
Energy & Water Division

Date: December 4, 2003

Reference: Docket 03-00389 – Audit of RBS Gas Utility's (RBS) ACA Filing for the 12 Months Ended February 28, 2003
Amended Audit Report

On November 26, 2003, the Legal Division sent a certified letter to Mr. Ed Ayers (President of RBS) regarding his failure to respond to Staff's audit findings. On December 3, 2003, I received written responses from Mr. Ayers via email. Mr. Ayers indicated he would send his original response letter to Richard Collier via overnight mail. Attached to this memo, please find amended pages 6 through 11 of the audit report, incorporating Mr. Ayers' late responses to the Staff's audit findings. These pages should be replaced in the original audit report filed on November 13, 2003.

Attachment

C: Docket File
Ron Jones, Director
Richard Collier
Aster Adams
Eddie Roberson
Greg Mitchell
Senior Policy Advisors

Amended Report

FINDING #1:

Exception

The Company did not bill the monthly customer charge to some customers.

Discussion

During an audit of customer bills, Staff discovered that, of the sample reviewed, the Company failed to bill the monthly customer charge of \$5.00 to four (4) customers. These four (4) were comprised of a church, a school, a government agency and a hospital. The Company's tariff does not make these exceptions. This error did not affect the balance in the ACA Account.

Company Response

The Company failed to respond to the Staff's finding.⁹

The Following Company Response Received 12/03/03

When I purchased the company in December of 2002, it was expressed to me by Mr. W. E. Hathorn (the previous president) that it was his policy not to bill monthly customer charges to churches, schools, hospitals or government agencies, At that time I decided to continue this policy, and would like to continue this policy unless it violates the terms of my tariff with the TRA.

⁹ Staff forwarded its draft findings to the owner of RBS and made multiple attempts to contact him prior to the issuance of this report. Staff received no response.

FINDING #2:

Exception

The Company used an incorrect Beginning Balance to calculate the balance in the ACA Account as of February 28, 2003.

Discussion

In the audit report for the period covering the 12-months ending February 28, 2002, Staff stated that the correct ending balance for the audit period was negative \$3,890.45.¹⁰ The Company used negative \$2,040.53, which was the ending balance before adding the interest due to customers of negative \$1,849.92. This error resulted in a **\$1,849.92 over-recovery** in the ACA Account.

Company Response

The Company failed to respond to the Staff's finding.

The Following Company Response Received 12/03/03

When I prepared the ACA report, I was working with numbers supplied to me by Mr. Hathorn. It was my understanding that our beginning balance was -\$2,040.53. When I file the next ACA report I will have the correct numbers at my disposal.

¹⁰ TRA Docket No. 02-00362, page 7 of Staff's audit report.

FINDING #3:

Exception

The Company reported incorrect gas costs for the month of March 2002.

Discussion

The Woodward Marketing invoice for gas purchases for March 2002 was \$18,522.00. While the Company showed this amount on its spreadsheet, Staff determined that the Company actually used \$23,910.93 in its calculation of a \$3,085.80 balance, before interest, and in its calculation of \$460.94 in interest, for a net balance at February 28, 2003 of \$3,546.75. Using the correct invoice amount for March 2002 results in a **\$5,388.93 over-recovery** in the ACA Account.

Company Response

The Company failed to respond to the Staff's finding.

The Following Company Response Received 12/03/03

The Woodward Marketing invoice referred to in this finding was paid by Mr. Hathorn. He assisted me in preparing the ACA report, but I have no idea why this discrepancy came about, nor did Mr. Hathorn mention it during the preparation of the report. I do however know that Mr. Hathorn had at times manually adjusted charges on sales reports due to incorrect data entry.

FINDING #4:

Exception

The Company used an incorrect ACA factor to calculate the ending balance in the ACA Account at February 28, 2003.

Discussion

For the months of August 2002 through February 2003, the Company used a positive \$0.1565 factor (surcharge) to calculate the ACA recoveries each month. The correct ACA factor calculated in Docket No. 02-00362 was a negative \$0.1565 (refund). Correcting this error resulted in a **\$6,245.29 under-recovery** in the ACA Account.

While the Company used an incorrect factor in calculating the ending balance in the ACA Account, Staff's customer bill audit revealed that the correct factor was actually charged to the customers. The error cited in this finding is a reporting error.

Company Response

The Company failed to respond to the Staff's finding.

The Following Company Response Received 12/03/03

I believe that this error occurred simply due to oversight due to incorrectly entering the factor on the spreadsheet or not changing a previous factor.

FINDING #5:

Exception

The Company used an incorrect PGA factor to calculate the ending balance in the ACA Account at February 28, 2003.

Discussion

For the months of March 2002 through June 2002, the Company used a positive \$2.6095 factor (surcharge) to calculate the PGA recoveries each month. The correct PGA factor calculated in Tariff Filing No. 01-00584 was a positive \$2.71230. Correcting this error resulted in a **\$540.83 over-recovery** in the ACA Account.

While the Company used an incorrect factor in calculating the ending balance in the ACA Account, Staff's customer bill audit revealed that the correct factor was actually charged to the customers. The error cited in this finding is a reporting error.

Company Response

The Company failed to respond to the Staff's finding.

The Following Company Response Received 12/03/03

I believe this error to also have occurred in a similar manner to the above.

FINDING #6:

Exception

The Company calculated the wrong interest amount.

Discussion

Two errors contributed to the \$313.04 over-recovery of interest from customers. The Company used incorrect interest rates in its calculations for the first and second quarter of 2002 and the first quarter of 2003. The following compares the rates used by the Company compared to the correct rates. The PGA Rule describes the correct method for calculating interest on account balance for the deferred gas account (ACA Account). The TRA Staff calculates this rate quarterly and notifies all companies under its jurisdiction of the correct rates to use. There is no reason for a Company to deviate from these rates. The error resulted in a **\$2.37 under-recovery** in the ACA Account.

Quarter	Rate Used by Company	Rate Prescribed by TRA
1 st Q 2002	4.75%	5.64%
2 nd Q 2002	4.75%	4.78%
1 st Q 2003	4.65%	4.62%

The second error resulted from the other findings noted. Staff recalculated the interest after correcting all findings. The difference was a **\$315.41 over-recovery** in the ACA Account.

Company Response

The Company failed to respond to the Staff's finding.

The Following Company Response Received 12/03/03

I have no explanation for the first two quarters of fiscal year 2002, except to speculate that again, this was an oversight on the part of the previous president, Mr. Hathorn. As for 1st quarter 2003, I have only myself to blame. I called and spoke to Ms. Betty Patton and she advised me of the 4.62% rate. I incorrectly entered the rate in preparation of the report.